

STATE OF WASHINGTON



**OFFICE OF
INSURANCE COMMISSIONER**

**BEFORE THE INSURANCE COMMISSIONER
OF THE STATE OF WASHINGTON**

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In the Matter of)	No. D99-107
)	Consent Order Levying a Fine
AMERICAN NATIONAL INSURANCE)	
COMPANY,)	
)	
An Authorized Insurer.)	
)	

FINDINGS OF FACT:

1. American National Insurance Company ("American National" or the "Company") is a life and disability carrier licensed to do business in the State of Washington.
2. The Office of the Insurance Commissioner ("OIC" or the "agency") conducted an investigation of the Company during 1998. In the course of that investigation, the OIC discovered that American National did not correctly pay interest on death benefit claims from the date of death until the date the claims checks were issued.
3. After carefully reviewing Company records, the OIC determined that American National failed to pay any interest whatsoever on 675 death benefit claims. It paid an insufficient amount of interest on an additional 362 death benefit claims. A total of 1,037 Washington consumers were affected by American National's actions between 1993 and 1998.
4. After the OIC brought the violations to its attention, American National agreed to pay the delinquent interest amount owed to the consumers plus interest. The total amount American National paid was \$127,238.78.
5. On April 28, 1999, the OIC issued a jeopardy letter to American National. The letter notified the Company of its violations of Washington law and warned that the agency might proceed against its

certificate of registration should an informal resolution of the matter not be reached.

6. After it received the jeopardy letter, the Company reviewed its credit life insurance claims. The Company did so on its own initiative. The Company found that it had not paid the proper amount of interest on death claims under 271 credit insurance policies issued to Washington policyholders. As a result, the Company paid out approximately \$42,000 more in interest, including interest on interest, under these policies.

7. American National has failed to abide by an agreement with the OIC in the past. In 1993, the OIC determined that American National was selling bonus annuities in the State of Washington.

The Company assured the agency that it would cease selling such products. Two years later the OIC discovered that an agency representing American National had sold more bonus annuities.

8. American National failed to respond to OIC inquiries in a complete, accurate, and timely manner.

9. American National has cooperated with the OIC in this investigation and has taken remedial action to correct the calculation of interest on death benefit payments under life insurance policies to comply with applicable law.

10. The OIC found no evidence that American National intentionally violated Washington insurance law or intentionally deprived Washington consumers of funds to which they were entitled.

CONCLUSIONS OF LAW:

1. American National's failure to pay the proper amount of interest on death claims is a violation of RCW 48.23.300.

2. American National's failure to respond completely to OIC inquiries within fifteen business days is a violation of WAC 284.30.360.

3. RCW 48.05.185 authorizes the Commissioner to impose a fine in lieu of the suspension or revocation of a company's certificate of registration.

CONSENT TO ORDER

American National Insurance Company hereby admits to the foregoing Findings of Fact and Conclusions of Law. The Company hereby consents to the entry of this order.

The Commissioner has offered a settlement in lieu of suspending or revoking the company's certificate of registration.

By agreement of the parties, the OIC will impose a fine of \$370,000, and suspend \$185,000, on condition that:

1. American National pay \$185,000 of the fine for its violations of Washington insurance law.

2. American National abide by the standards set forth in Exhibit A of this agreement, entitled "Company Plan to Reduce Claims Payment Violations."

3. American National commit no further violations of the statutes and regulations that are the subject of this consent order for a period of two years from the date on which this order is entered.

This fine must be paid in full within thirty days of the entry of this order. Pursuant to RCW 48.05.185,

failure to pay the fine within the allotted time shall constitute grounds for revocation of the insurer's certificate of registration, and for the recovery of the fine in a civil action brought on behalf of the Insurance Commissioner by the Attorney General of the State of Washington.

American National acknowledges its duty to comply fully with the applicable laws of the State of Washington.

EXECUTED this 6th day of October, 1999.

Title: _____

ORDER

Pursuant to RCW 48.05.185, the Insurance Commissioner hereby imposes a fine of three hundred seventy thousand dollars, with one hundred eighty-five thousand dollars suspended, upon American National Insurance Company. The fine must be paid in full within thirty days of the date of entry of this order. Failure to pay the fine within the allotted time shall constitute grounds for the revocation of the insurer's certificate of registration, and for the recovery of the fine in a civil action brought on behalf of the Insurance Commissioner by the Attorney General of the State of Washington.

American National will perform Conditions One through Three as set forth in the "Consent to Order" section of this order. The Commissioner may impose the balance of the suspended fine and suspend or revoke American National's certificate of registration should the company fail to meet these conditions.

ENTERED AT OLYMPIA, WASHINGTON, this 15th day of October, 1999.

DEBORAH SENN
Insurance Commissioner

By

Jeffrey Coopersmith
Deputy Commissioner Legal Affairs

EXHIBIT A

AMERICAN NATIONAL INSURANCE COMPANY COMPANY PLAN TO REDUCE CLAIMS PAYMENT VIOLATIONS

This document provides details of the administrative plans that are in progress at American National Insurance Company ("American National" or "Company"), and has been prepared to provide the Office of the Insurance Commissioner of the State of Washington ("OIC") a written statement of standards dealing with the payment of death claims under life insurance policies and procedures for complaint analysis and complaint handling within the Company.

Regarding the specific issue of incorrect payment of interest on death claims in the state of Washington, Gareth W. Tolman, Senior Vice President - Corporate Affairs, will have one or more members of his staff review a random sampling of five to ten percent of death claims on Washington

residents each quarter to verify the accuracy of the interest rate data and interest calculations. This sampling will be conducted for at least two years and thereafter until Mr. Tolman and his staff are assured that all interest calculation functions, both automated and manual, are performing properly.

As a part of its business operations, American National develops, maintains, and implements several corporate policies and procedures designed to address legal and market conduct compliance issues. Corporate Compliance staff has recently completed the development of a detailed course on handling insurance department and consumer complaints and inquiries. All employees of the Company involved in handling complaints and inquiries will be required to complete the course. The administration of the course will begin during the fourth quarter of 1999. Currently, all complaints are first routed through the Consumer Affairs section for entry into the Company's complaint log and distribution to the appropriate area of the Company for response. Consumer Affairs also monitors the status of complaints in an effort to assure timely responses. In addition, Corporate Compliance staff will begin auditing the Company's complaint files through a random sampling of five to ten percent of the files. The purpose of such audits will be to identify patterns or trends in complaints that may signal a problem with a particular product or marketing activity or a weakness in an internal operation, such as the failure to resolve complaints in a timely manner. Reports of the results of complaint audits will be furnished to management on a quarterly or more frequent basis.

The Company was in the first group of companies to be accepted for membership in the Insurance Marketplace Standards Association ("IMSA"). During the course of the independent assessment required as a condition to membership in IMSA, the Company's market conduct processes and procedures were reviewed for conformance with IMSA's Principles and Code of Conduct.

The Company has purchased from the Leverage Company a PC-based system to be used for the administration of small-volume, more complex products. This PC environment will allow for more flexibility in modifications and will provide for better testing.

The Company also purchased a second operations processing system from Cybertek, an insurance software firm. The Cybertek system is a mainframe system which will be used for higher-volume, less complex products. High volume processing is still more efficient on a mainframe system. Because the products are simpler, system changes should occur less frequently and should be manageable in this environment.

American National's administrative areas have also created a new department specifically dedicated to testing and maintaining administrative systems. This new department will test changes being made at any time, and also will retest prior code for accuracy and consistency so as to minimize the opportunity for error as changes are introduced into the system. A model office will be created and maintained for this testing.

With high-quality service becoming an even more important competitive factor, American National employs the above initiatives with the goal in mind to be responsive to the needs of its customers. American National is committed to emphasize quality of service that should far exceed the levels of service expected by the OIC and, as a result, demonstrate that it is a good corporate citizen.